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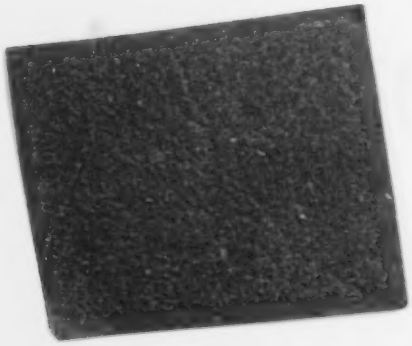
REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE PERIOD ENDED 31 DECEMBER 1996*/

*/ An annex contains follow-up actions to implement the Board's recommendations for 1995 as well as the comments of the Board thereon.



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A. Introduction

1. In accordance with paragraph 22 of the statute of the United Nations High Commissioner for Refugees (UNHCR), the Board of Auditors has audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period 1 January 1996 to 31 December 1996. The audit was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing standards require that the Board plans and performs the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

3. The audit was carried out at the headquarters of the office of the United Nations High Commissioner for Refugees at Geneva and at its branch offices in Georgia, Guinea, Kenya, Liberia, Mexico, Sudan and Thailand.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. The reviews concerned the extent of management control exercised by UNHCR on its implementing partners with reference to programme management, financial management and inventory control. The Board also reviewed the efficiency of the procurement system adopted by UNHCR headquarters and the branch offices, as well as financial management and human resources management.

5. The Board continued its practice of reporting the results of specific audits through audit observations and management letters containing audit findings and recommendations to the Administration.

6. A summary of the main recommendations and findings is reported in paragraphs 10 to 17 below. The detailed findings of the audit are reported in paragraphs 18 to 123.

7. The present report covers matters which, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in this report were communicated to UNHCR. The Administration has confirmed the facts on which the Board's observations and conclusions are based and has provided explanations and answers to the Board's queries. The report is divided in two parts covering the audit of financial statements and management issues, respectively.

1. Previous recommendations not fully implemented

8. In accordance with paragraph 7 of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below, those recommendations which have not been fully implemented by UNHCR. The references indicated in parenthesis (starting from 1993) refer to the years when the recommendations were made by the Board:

a) non-assessment of the capabilities of implementing partners to implement major projects (1993, 1994 and 1995) (see para. 66);

b) delays in submission of project monitoring reports by field offices and sub-project monitoring reports by implementing partners (1994 and 1995) (see paras. 68 and 69);

c) omission to review the decision concerning preparation of work plans on a selective basis and the format of the work plan (1994 and 1995) (see paras. 59 and 60);

d) non-maintenance of separate accounts for UNHCR funds by the implementing partners (1994 and 1995) (see para. 64).

9. The Board has reviewed the measures taken by UNHCR to implement the recommendations made in its report for 1995. Details of the action taken and the comments of the Board are contained in the annex to the present report.

2. Summary of main recommendations

10. The Board recommends that the following actions, presented in order of priority, should be taken:

Financial management

a) UNHCR should ensure that audit certificates are submitted by the implementing partners in sufficient time for the Administration to have the necessary assurance about the regularity, compliance and propriety of the expenditure incurred by the implementing agencies and reflected in the financial statements (see para. 26);

b) UNHCR Administration should urgently review the present system of recording of expenditure by implementing partners. The Administration should also ensure that all outstanding financial reports are received from implementing partners and are used for adjusting the funds lying in the memorandum suspense account in the Financial Management Information System after proper verification of these reports (see para. 28);

c) UNHCR should focus more attention on timely review and cancellation of obligations no longer required (see para. 39);

Programme management

(d) Programme delivery and administrative support costs in the budgets of various country programmes should be reviewed and norms should be established (see para. 50);

(e) Project objectives should be clearly defined and quantified so that there is no conflict between objectives and inputs and the executing agency has a clear idea of the targets to be achieved at the end of the project period (see para. 53);

(f) Pending the introduction of the new operations management system, preparation of work plans should be strengthened and made more programme specific and include appropriate performance indicators (see para. 61);

(g) Sub-project descriptions should be specific with clear identification of the nature of assistance and the implementing partners' responsibilities and should include appropriate performance indicators for the purpose of monitoring (see para. 58);

(h) The Administration should intensify its efforts to obtain project monitoring reports (see para. 70);

(i) UNHCR should establish procedures to ensure that quick impact programmes generate results within a limited period (see para. 74);

Procurement

(j) The progress already achieved in obtaining annual purchasing plans from field offices should be taken forward by covering even more field offices (see para. 76);

Human resources management

(k) The Administration should issue guidance to all field offices and requesting units at Headquarters on the need to prepare the terms of reference of the consultancy contract in a more precise and output-related manner, and to include objectives, targets and delivery dates with deliverable/measurable outputs (see para. 85);

(l) Within its decentralisation plans, UNHCR should ensure that a central roster is maintained with up-to-date information (see para. 90);

Asset management

(m) The MINDER system should be upgraded to enable electronic transfer of data from the procurement system to the asset management system (see para. 107);

(n) Physical verification of all assets, including those not recorded into the system, should be completed expeditiously (see paras. 113);

3. Summary of findings

Financial management

11. Though a beginning was made in the submission of audit certificates by implementing partners after UNHCR initiated action for pre-qualification of implementing partners and for obtaining audit certificates from implementing partners, audit certificates have not been received for the expenditure incurred by the implementing partners in 1996. UNHCR's practice of recording cash advances as programme expenditure at the time the funds are advanced does not provide full accountability (see paras. 25 to 27).

12. In the financial statements the Board noted some cases of non-compliance with the United Nations System Accounting Standards. A sum of $14.9 million was accounted for as income in 1996 though it related to future periods. Regarding other financial issues the Board noted that a major portion (75 per cent) of unliquidated obligations were cancelled only towards the end of the year, keeping funds unavailable for other projects (see paras. 19, 34, and 38).

Programme management

13. No norms have been fixed for programme delivery and administrative support costs and rates for general programmes varied from 32 per cent to 48 per cent of the total programme budget in 1996. There were cases of delay in signing of sub-agreements by the field offices with the implementing partners, and work plans were not prepared in many cases. Project monitoring reports were either not received or received very late (see paras. 46, 60, 62, 68 and 69).

14. Quick Impact Programmes did not produce the desired quick impact (see para. 73).

Procurement

15. The Board noted improvement in obtaining of annual purchasing plans. (see para. 75).

Consultants

16. In-house expertise was not explored fully before engaging consultants. Terms of reference of consultants were not spelt out clearly, consultants were selected on a single candidate basis and rosters of consultants remained largely unused. There were cases of repeated appointments of consultants and end of term evaluation was inadequate (see paras. 80, 83, 86, 89, 95, 97).

Assets management

17. Owing to lack of compatibility between the procurement system and the assets management system, it was not possible for MINDER to capture

automatically details of assets produced. Physical verification of assets, both at headquarters and in the field offices, was overdue (see paras. 106 and 112).

B. Financial Statements

United Nations System Accounting Standards

18. The General Assembly, in its decision 51/453 of 18 December 1996, took note of the United Nations System Accounting Standards contained in the Annex to the Report of the Secretary-General (A/51/523). These standards, which were developed by the Administrative Committee on Co-ordination, include inter alia, formats for Financial Statements.

19. The Board confirmed that the financial statements and the schedules prepared by UNHCR generally conform to the United Nations System Accounting Standards, except for the treatment of non-expendable items, disclosure of end-of-service liabilities, contributions received in advance, the treatment of prior period expenditure adjustments and disclosure of accounting policies.

20. With regard to the treatment of non-expendable property, the Board observed that a total of 38 out of 131 field offices had been unable to complete the recording of their assets in the MINDER asset tracking system. As a result, the inventory value of assets held by UNHCR is not fully disclosed in the accounts. Concerning the liabilities for end of service benefits, these have neither been provided nor disclosed. Contributions received in advance were incorrectly classified under "other liabilities", whereas they are required to be separately disclosed.

21. The Board noted that prior period expenditure adjustments totalling $13 million, should have been taken into account before, rather than after arriving at the net shortfall of income over expenditure. Accordingly, this net shortfall is understated by $13 million.

22. The Board had recommended in its 1995 report on UNHCR that the Administration should establish an appropriate format for disclosing accounting policies and notes to the accounts separately. The Board noted that in the financial statements for 1996, UNHCR has not clearly disclosed significant accounting policies underlying the preparation of the financial statements as distinct from other explanatory notes to the accounts. The Administration agreed that the order and presentation of the Notes to the financial statements could be modified.

Audit Certificates for expenditure incurred by implementing partners

23. In its report for 1995, the Board had recommended that the accounts of the implementing partners relating to UNHCR funds should be regularly audited by independent audit authorities and audit certificates be obtained from the implementing partners to verify the correctness and propriety of the expenditures incurred by them.

24. The table below shows the number and value of projects under implementation as at the end of 1995, for which audit certificates had not been received up to June 1997.

Impl. partner	No.	No. of Projects	Value US$M	Value for which audit certificates not received
United Nations Agencies	11	102	25.4	- *
Govt. Implementing Partners	154	269	130.0	111.7
NGOs (Local/Intl.)	471	1051	342.7	121.9
Total	636	1422	498.1	233.6

**UNHCR considers that the Audited Financial Statements presented by the implementing partners to the United Nations General Assembly or the respective Executive Committees are sufficient audit certification.*

25. In response to the Board's recommendation, the Administration initiated certain steps to obtain the required audit certificates. Accordingly, at the end of 1996, UNHCR requested all its implementing partners to submit audit certificates and/or annual financial accounts for their 1995 operations. According to UNHCR, audit certificates for $264.5 million (53.1 per cent) had been received as of June 1997, for projects under implementation as at the end of 1995. UNHCR stated that the quality of audit reports received and disclosure of UNHCR's funding therein varied from one implementing partner to another, but in overall terms the funds made available to the NGOs could be identified. Whenever this was not the case, information was requested from the implementing partner to clarify and confirm that the audit also covered UNHCR funds. Based on this experience and following the receipt of the 1996 audited reports shortly to be requested from the implementing partners, UNHCR stated that it would be in a position to establish a firm policy for future audit certification requirements of its implementing partners.

26. UNHCR requires implementing partners to submit audit certificates within six months of the final date for liquidation of commitments and UNHCR confirmed that a number of projects have their liquidation dates extended. The Board appreciates the efforts made by UNHCR to obtain audit certificates from implementing partners but also notes that audit certificates have not been received for the expenditure incurred by the implementing partners in 1996. The Board reiterates its recommendation made in its report on the financial statements for 1995 that UNHCR should ensure that these audit certificates are submitted by the implementing partners in sufficient time for the Administration to have the necessary assurance about the regularity, compliance and propriety of the expenditure incurred by the implementing agencies and reflected in the financial statements.

27. Under the accounting practices followed by the organization, cash advances to implementing partners are recorded as programme expenditure at the time the funds are advanced. Separately, these advances are recorded under a memorandum suspense account, and are cleared as and when financial reports are received from implementing partners. This practice does not provide full accountability and could also lead to incorrect recording of actual expenditure in the financial statements. Financial reports had not been received in respect of the following amounts:

Year in which advance was given	Outstanding Financial Reports	
	As at 31 December 1996 (in millions of dollars)	As at 30 June 1997 (in millions of dollars)
1994	101.5	91.3
1995	182.8	138.3
1996	311.4	213.0
Total	595.7	442.6

Against advances of $213 million to implementing partners made in 1996 and recorded as expenditure, UNHCR is not yet able to confirm how the implementing partners had applied the funds.

28. The Board is concerned at the uncertainties arising from these procedures and recommends that UNHCR Administration should urgently review the present system of recording of expenditure by implementing partners. The Administration should also ensure that all outstanding financial reports are received from implementing partners and are used to clear the amounts recorded in the memorandum suspense account in the Financial Management Information System after proper verification of these reports.

Refund of pledges

29. The Board noted that UNHCR had to refund $1.57 million to donors in 1996. For example:

(a) a pledge of $200,000 made by a donor Government in 1994 for establishing a regional support unit for refugee children had to be refunded to the donor due to delay in implementation of the project.

(b) similarly, a contribution of $291,971 from another donor for recruitment of junior professional officers could not be utilised as there were delays in identification of potential candidates and formulation of budget estimates. As a result, the full amount of contribution together with an earlier unused balance ($300,000) had to be refunded to the donor. The Administration stated that this came about because the donor had transferred the funds well before the candidates' curriculum vitae had been presented and screened.

30. The Board recommends that UNHCR should take steps to ensure that recurrence of such situations is avoided.

Re-allocation of funds

31. The Board noted a few cases where a total of $7.4 million in contributions given by donors for specific purposes were re-allocated to other programmes without the prior written approval of the donors. In another case a donor withheld an amount of $218,537 of its contribution, following UNHCR's notification of reallocation of the funds.

32. The Board recommends that UNHCR should always obtain prior approval from the donors before reallocating earmarked funds.

33. The Board noted a difference of $5.9 million in the 1996 income from contributions as recorded by the Treasury and by the Funding and Donor Relations Service Section. The Board, therefore, recommends that the final reconciliation of income from contributions should be carried out at the end of the year in order to ensure that the correct income is recorded in the financial statements. The Administration stated that though reconciliation does take place, it is working on a system that will use the same data base, to eliminate this source of misinterpretation.

Overstatement of income

34. In accordance with UNHCR's accounting policy, contributions subject to further allocations by the donors towards UNHCR's specific programme/project are treated as 'reserve pledge' and recorded as income in the accounts only after such allocation is approved by the donor. The Board noted cases where contributions of $14.9 million meant for future years or for refund were incorrectly accounted for as income for 1996, thereby overstating the accounts by the same amount. In addition, amounts totalling $8.4 million intended to cover programmes extending from 1 October 1996 up to 30 September 1999 were incorrectly treated as income for 1996. In these cases only the relevant portion of income attributable to the period 1 October to 31 December 1996 should have been recognized as income in 1996.

Liquidity position

35. The Board noted that the liquidity ratio (total current assets to total current liabilities) as at 31 December 1996 decreased to 2.29:1, as compared with a ratio of 2.58:1 as at 31 December 1995. The Board also noted that the quick ratio, which measures the liquidity position in terms of cash or near cash, had also decreased from 1.43:1 as at 31 December 1995 to 1.08:1 as at 31 December 1996. The decline in liquidity would have been significantly worse had UNHCR not been able to cancel an amount of $71.7 million (34 per cent of prior years' unliquidated obligations), thereby reducing the level of liabilities.

Investments

36. As at 31 December 1996, UNHCR had invested $205.4 million in different currencies as short term deposits and $0.8 million in 48 hour call accounts. The Board noted that the average rate of interest earned during the year declined from 5.83 per cent in 1995 to 5.21 per cent in 1996. The

Administration attributed the decline to world wide reductions in interest rates and the flattening of the yield curves for major currencies. The Board verified that substantial funds were tied up in current accounts and call accounts, which attracted lower interest rates compared with term deposits. In addition, the average funds in current accounts increased substantially (by 37 percent) from $30.6 million in 1995 to $41.9 million in 1996 as against the average funds in term deposits which were lower by 7 percent in 1996 ($227.5 million against $244.3 million in 1995).

37. The Board, therefore, recommends that balances in current accounts and call accounts should be reviewed regularly and surplus funds be invested in term deposits, keeping the balances in current and call accounts to the minimum necessary.

Unliquidated obligations

38. The Board noted that $71.7 million being 34 percent of unliquidated obligations of $208.6 million as of 1 January 1996 had been cancelled during 1996. The Board's review further disclosed that nearly 75 per cent of the cancellation of unliquidated obligations was made in the last quarter of 1996. The Administration stated that though unliquidated obligations were monitored throughout the year, the liquidation periods for a great number of projects were extended into the second, if not third, quarter of the year, resulting in bulk cancellations of unliquidated obligations in the third and fourth quarters.

39. The Board recommends that UNHCR should focus more attention on timely review and cancellation of obligations no longer required.

Write-off of losses of cash, receivables and property

40. Cash and receivables amounting to $258,110 were written-off during the year. The write-off included an amount of $227,967 looted from Sub-Office Goma after emergency evacuation.

41. Details of property and categories of losses of property as reported by various field offices to the Property Survey Board and written off during the year are as follows (in United States Dollars):

Category	Value (US$)
Accident	156 094
Hijacking	244 886
Theft	532 460
Looting	36 146
Loss of property	315 783
Damage/destroyed	178 494
Wear and tear	495 248
Others	143 570
Total	2, 102, 681

42. The Board noted an increase of 21 per cent in losses reported during the year, compared to 1995 ($1,738,978).

43. During the audit of branch office, Monrovia, the Board noted that there was extensive loss of UNHCR properties estimated at more than $2 million during civil disturbances in April 1996. The Branch office was in the process of finalising the list of lost properties and the matter was yet to be reported to the Property Survey Board.

44. A selective review of theft cases indicated that these pertained mostly to attractive items such as lap top computers, telecommunications equipment attached to vehicles and motor vehicles. The Board's review disclosed that in many cases the Headquarters Assets Management Board (HAMB) did not investigate the details of security lapses leading to loss and possible corrective action.

Ex-gratia payments

45. The Administration reported that an ex-gratia payment of $23,195 was made during the year in accordance with UNHCR financial rule 10.5.

C. Management issues

1. Programme management

Programme delivery and administrative support costs

46. The costs of programme delivery and administrative support activities undertaken are charged to General and Special Programmes. The Board analysed the programme delivery and administrative support costs against the total budget for the implementation of assistance programmes for the period 1994-1996. The Board observed that no norms have been fixed for programme delivery and administrative support costs and consequently there was variation in the rates charged for programme delivery and administrative support ranging from 32 per cent to 48 per cent of the total programme budget in 1996 for General Programmes. For General Programmes the percentage of programme delivery (PD) and administrative support (AS) costs to the total programme budget also shows an increasing trend over the last three years as shown below increasing from 27.3 per cent in 1994 to 35.7 per cent in 1996 (see page 13).

47. The Board also noted that for General Programmes in 1996, the programme delivery costs alone were 30.8 per cent while administrative support costs were 4.9 per cent of the total budget.

48. The Administration considered the programme delivery costs to be an operational expenditure which includes provision of international protection, promotion of refugee law, public information activities which generally fall under General Programmes rather than under Special Programmes. The Administration, however, agreed that the percentage of programme delivery and administrative support costs was high and has increased over the last few

Percentage of PD/AS Costs to Total Programme Budget (in millions of US$)									
		1994			1995			1996	
Region/ Programme	Total Budget	Amount of PD/AS	% of PD/AS to total Budget	Total Budget	Amount of PD/AS	% of PD/AS to total Budget	Total Budget	Amount of PD/AS	% of 47.PD/AS to total Budget
General Programmes									
Africa	140.4	31.6	22.5	156.2	44.4	28.4	142.3	45.7	32.1
Asia	50.4	13.7	27.1	44.6	14.7	33.0	34.9	14.2	40.6
Europe	30.6	13.5	44.2	39.9	17.6	44.0	51.3	20.6	40.2
Americas	20.7	10.1	48.9	21.4	11.3	52.7	22.9	11.0	48.1
Swaname	51.2	11.3	22.0	60.7	16.6	27.3	61.6	20.2	32.8
TOTAL	293.3	80.2	27.3	322.8	104.6	32.4	313.0	111.7	35.7
Special Programmes									
TOTAL	760.7	125.3	16.5	760.9	123.5	16.2	885.3	142.6	16.1
GRAND TOTAL	1054.0	205.5	19.5	1083.7	228.1	21.0	1198.3	254.3	21.2

years; one of the measures they had taken was to limit all General Programme posts at the initial 1998 level.

49. The Board's review also disclosed that the level of programme delivery and administrative support costs was particularly high in the case of special programmes in Iran (53.5 per cent), Kenya (45.7 per cent) and Somalia (50.5 per cent) and in the case of an annual programme of Care and Maintenance in Senegal (75.4 per cent) and Zaire (77.4 per cent). The Administration stated that though repatriation programmes in Iran, Kenya and Somalia were slowed down by political events, UNHCR field offices had to be maintained and hence the percentage of these costs was high. Also, Senegal and Zaire were regional offices covering neighbouring countries, and therefore required more staff than a usual country office.

50. The Board recommends that the programme delivery and administrative support costs should be reviewed and that norms should be established.

51. The Board also noted that trust fund programmes are charged varying percentages ranging from 2 to 23 per cent towards overhead costs for Headquarters administrative expenditure in addition to programme delivery and administrative support costs of field offices. The Administration attributed the variation to the fact that activities at some stations were staff intensive. At the Board's suggestion, the Administration agreed to look into the possibility of fixing an upper limit for these expenditures from trust funds.

Project Planning

Project objectives

52. In its review of a care and maintenance project in branch office Khartoum, the Board noted that although the main objective of the project was self-sufficiency in the refugee settlement and phasing out of direct assistance, the main focus of the project continued to be the provision of food, supply of water, health services and sanitation activities. As a result little scope was left for the beneficiaries in achieving self-sufficiency and phasing out of direct assistance. The local Administration agreed to review the objective. Similarly the Liaison Office at Tbilisi was to implement programmes for the benefit of internationally displaced persons in Georgia including a care and maintenance programme for 1995. A review of the programmes implemented by three implementing partners indicated that the project objectives were not specific and beneficiaries were not clearly identified. The assistance by implementing partners was of a general nature namely rehabilitation of communal centre, family level income generation, agricultural production packages, assistance to the most vulnerable groups of internationally displaced persons in the Mongolia region.

53. The Board recommends that project objectives should be clearly defined and quantified so that there is no conflict between objectives and inputs and the executing agency has a clear idea of the targets to be achieved at the end of the project period.

Letters of Instructions

54. Letters of Instruction are the basic instruments for commencement of project implementation. They authorise the addressees to directly implement the delivery of assistance or to delegate implementation through the drawing-up of sub-agreements with Implementing Partners. The Board had previously reported delays in the issue of Letters of Instruction and the multiplicity of amendments thereto. The Board noted that this situation still prevailed in special programmes in major operational areas for example in Bosnia Herzegovina, Mexico, Thailand and Liberia. The Board considers that the large number of amendments to care and maintenance programmes, which at times were made throughout the year, creates uncertainties in execution. In branch office Tbilisi, against a requirement of $4.83 million for 1996, funds were allocated on a piece-meal basis. Consequently, due to uncertainty about the receipt of subsequent instalments and delayed receipt of funds, most of the project activities were carried out in the last few months of the year with a part of them spilling over to the subsequent year. The Administration stated the piecemeal release of funds by the donors was the reason for the large number of amendments.

55. The Board appreciates that some of these amendments may have been due to non-availability of funds but at the same time the Board also noted that sometimes revisions in project requirements were far in excess of actual disbursement. Excessive estimate of project requirement and low level of expenditure was noted in a care and maintenance programme in Liberia for Sierra Leonean refugees and in a local settlement programme for Guatemalan refugees in Mexico. The Board recommends that UNHCR exercises greater care in establishing project requirements to minimise the mis-match between project requirement and actual utilisation.

Sub projects

56. In the branch office Conakry, annual targets were not fixed in a sub-project aimed at providing primary and secondary education to refugee children and in another sub-project meant to provide loans for micro projects. In a sub-project in branch office Monrovia, intended to provide for mobile medical camps, vaccination campaigns and health education, no measurable targets, time schedule or location were included.

57. The Board noted instances where the sub-project descriptions did not reflect fully the implementing partner's responsibility and did not incorporate appropriate performance indicators for purposes of monitoring and evaluation. For example, in branch office Monrovia, though a sub-agreement was signed to cover educational activities, the implementing partner also executed additional activities without a formal sub-agreement and budget allocation. A revised sub-agreement was only signed at the end of the project period in order to regularise the additional activities. In the only care and maintenance programme under implementation in Liberia for Sierra Leonean refugees, three sub-projects' descriptions did not lay down any specific parameters. In another case, concerning an agricultural project designed to motivate the refugees in farm activities and to develop refugees' expertise in agriculture, the sub-project description did not indicate the target group or the nature of expertise to be developed.

58. The Board recommends that sub-project descriptions should be specific with clear identification of the nature of assistance and the implementing partners' responsibilities, and should incorporate appropriate performance indicators for the purpose of monitoring.

Work plans

59. Work plans serve to provide a schedule of implementation for the projects and to establish milestones which can be used to monitor progress. In its reports for the years 1994 and 1995, the Board of Auditors had drawn attention to the fact that the field offices paid inadequate attention to the preparation of work plans. In 1996 also, however, UNHCR had decided to leave the preparation of work plans in the hands of executing offices.

60. The Board observed that out of 41 projects test checked at Headquarters, work plans were prepared only in 25 cases. Even where they were available, there was no evidence that these were used for monitoring and evaluation of work. During audit of field offices, the Board observed that in three of the seven offices visited there were no work plans at all for any of the projects under implementation. The work plans prepared in the branch office Mexico, did not contain specific targets or time-frame for achievements.

61. In view of the serious shortcomings in work plans noted in four of the seven branch offices visited, the Board recommends that pending introduction of the new operations management system, preparation of work plans should be strengthened and made more programme specific and include appropriate performance indicators.

Project implementation

Sub-agreements

62. Although the Board of Auditors has previously pointed out delays in signing of sub-agreements with implementing partners, there has been insufficient improvement in this regard. In three field offices visited, the Board noted many instances of delay in signing of sub-agreements, sometimes after the sub-projects were started and the first instalment paid. In branch office Conakry, the Board noted that these delays in signing the sub-agreement had adversely affected effective programme delivery. For example, in one project, there was an adverse effect on rice production; in another project, the construction of community centres for refugee activities in Guinea was delayed. In a care and maintenance project in Kenya, the planned rate of afforestation could not be achieved and in a further project there was an adverse effect on repatriation of refugees which resulted in extra expenditure on care and maintenance of the refugees for a further eight months.

63. The Board recommends that UNHCR require field offices to ensure that sub-agreements are concluded in a timely fashion.

Deficiencies in maintenance of accounts by the implementing partners

64. The Board's examination of the accounts maintained by the various implementing partners indicated deficiencies in the maintenance of accounting records, preparation of cash and bank accounts. The Board also observed that branch offices did not exercise adequate control over the implementing partners. For example the Board found that due to deficient financial monitoring of implementing partners in the branch office Conakry, instances of financial irregularities, embezzlement and misappropriation, had occurred in the offices of the implementing partners. In the branch office Khartoum, six out of eight implementing partners were not operating the General Ledger Accounting System, but were compiling monthly accounts for the purpose of sub-project monitoring reports only; in branch offices Tbilisi and Monrovia no separate accounts for UNHCR funds were maintained and in the Tbilisi office, funds received from UNHCR were not deposited into bank accounts. The Administration stated that in 1995 and 1996 more than 50 per cent of the banks in Tbilisi went into bankruptcy. They informed the Board, however, that they plan to take remedial action to provide training to implementing partners and to ensure that UNHCR funds and records are maintained separately.

65. The Board reiterates that adequate emphasis be given to maintenance of separate accounts for UNHCR funds by the implementing partners and adequate control be exercised by field offices.

Deficiencies in project implementation

66. In its report for 1994, the Board had highlighted the importance of careful selection of implementing partners and the need to exercise adequate control over them to ensure efficient and economic implementation of programmes and projects. The Administration intimated that it had initiated action for pre-qualification of implementing partners. The Board noted, however, that there were continued deficiencies in the performance of implementing partners. For example, in one sub-project for supply of text books and class room supplies to primary students of four refugee schools in Monrovia, the Board observed that text books were procured only after the expiry of the project period and uniforms were not provided as required. In another sub-project in the branch office Tbilisi, concerning afforestation, 900,000 seedlings were to be distributed in areas where there was forest degradation but the implementing partner could achieve only 30 per cent distribution. In branch offices Nairobi and Tbilisi, the Board found that the implementing partner had failed to obtain competitive bids for some items and had paid excessive prices.

67. The Board reiterates that the capability of implementing partners to implement major projects should be assessed in more detail.

Project monitoring

Project monitoring at Headquarters

68. In its report for the period ended 31 December 1995 the Board had emphasized the need for timely receipt of project monitoring reports in

complete form. The current review indicated that in all 29 projects test checked the project monitoring reports were either not received or received very late. In three repatriation projects undertaken in 1995 in Angola, and three care and maintenance projects undertaken in 1995 in Uganda and Liberia, no project monitoring reports were submitted by the end of March 1997. The Board noted that even where project monitoring reports were submitted, many of them were incomplete due to the absence of the narrative text which should be included in part 2 of the report. As this part of the report should provide an assessment of the impact of the achievements and reasons for delays, its absence diminished the value of the monitoring exercise.

69. The Board noted that there were similar deficiencies in the UNHCR branch offices at Bangkok, Khartoum, Mexico and Nairobi. For example in the branch office Khartoum, an implementing partner had not submitted its monitoring reports under a local settlement project although the liquidation period was over. In its review of 16 sub-project documents in the same sub-office, the Board noted that all field sub-project monitoring reports were overdue. In the branch office Mexico, the Board noticed that sub-project monitoring reports were received late for the earlier part of the year and not received at all in most of the cases for the later part of the year although overdue. In branch offices at Bangkok and Nairobi the implementing partners were not submitting Part 2 of the sub-project monitoring reports. This narratival portion of the sub-project monitoring reports was deficient in details, defeating its purpose as a method of control.

70. The Board recommends that the Administration should intensify its efforts to obtain the project monitoring reports and to ensure that they are properly completed.

Project Evaluation

71. The Board had recommended in 1995 that appropriate procedures should be established by field offices to evaluate programme achievements and outputs. The findings of such evaluations should be utilised in programme planning and implementation.

72. In the branch office Mexico, there was no structured system for the evaluation of the projects under implementation. While agreeing with this, the Administration stated that at the field level evaluation of project impact was built in as a regular practice and regular contact with implementing partners took place. In the branch office Monrovia, the Board noted that neither the Headquarters nor the field offices had conducted evaluation of any of the projects completed since 1993. Further, in the branch office Conakry, a sub-project intended to provide self sufficiency in food for 10,000 beneficiaries had not been evaluated even after six years of operation.

Quick Impact Programmes

73. In the Quick Impact Programmes implemented in Somalia by the branch office Nairobi in connection with cross border operations there were no records maintained which reflected actual expenditure incurred on individual Quick Impact Programmes. The rate of implementation of the Quick Impact

Programmes was poor, and reporting requirements by way of periodic reports were also not adequate. The Administration stated that a system of financial monitoring for individual Quick Impact Programmes was to be established in 1997. The Administration also confirmed that efforts to streamline the reporting system would be made.

74. The Board recommends that UNHCR should establish procedures to ensure that quick impact programmes generate results within a limited period.

2. Procurement

Annual purchasing plans

75. The Board had recommended in its reports for 1993 and 1994 that annual purchasing plans should be obtained from all field offices and requisitioning departments. During the 1996 audit, the Board noted that annual purchasing plans from 70 countries have been received by the end of the year. These plans, according to the Administration, capture the bulk of 1997 procurement. This shows an improvement over the position obtaining at the end of 1995. While appreciating this improvement, the Board also noted that the Administration is trying to redesign the procurement forms to consolidate procurement planning documents to capture better the necessary information.

76. The Board recommends that progress already achieved in obtaining annual purchasing plans from field offices should be taken forward by covering even more field offices.

Vendor selection

77. The Board was pleased to note that the Administration had established procedures for registration of potential suppliers and mode of preparation of the bidders' list for quotation requests including selection criteria and approval procedures. The Administration informed the Board that they have recently carried out a review of the vendor roster and weeded out 516 non-performing vendors and added 1,281 vendors to bring it up to date. However, UNHCR is still in the process of refining its vendor performance evaluation to make the criteria for vendor selection more transparent. UNHCR further clarified that Inter-Agency Procurement Services Office (IAPSO) sub-working group on suppliers' appraisal and performance rating had adopted a performance rating system in May 1997 and that its recommendations were under implementation.

78. The Board appreciated the action taken by UNHCR to increase its sourcing of suppliers from developing countries. The Board noted that during 1996, out of 705 vendors selected by UNHCR headquarters to submit quotations, 522 (74 per cent) were from 13 developed countries and some 75 per cent of the value of contracts was awarded to suppliers in developed countries. The Administration clarified, however, that in response to earlier audit recommendations, UNHCR had discouraged international procurement of products that could be sourced competitively at the local or regional level. As a result, while 23 per cent of purchases made by Headquarters were placed with suppliers in developing countries, this figure went up to 46 per cent when purchases made by the regional procurement

offices were included. In dollar terms this represented 33 per cent of the total purchases. The Administration felt, however, that in view of increased emphasis on international bidding, the percentage of suppliers from developing country suppliers invited to bid for items that are not manufactured by them would decline.

3. Human resources management

Consultants and experts

79. Following the Board's report for the year ended 31 December 1994 which pointed out certain deficiencies in the engagement of consultants, UNHCR circulated a detailed procedure for the guidance of all field offices to re-emphasise the principles under which consultancy contracts are to be established. For 1996, the Board randomly selected 55 contracts for engagement of local/international consultants to verify the procedure being followed for identification, selection and engagement of consultants in UNHCR headquarters. The sample represented about 24 per cent of the 226 consultants engaged by UNHCR between 1 January 1996 and 31 December 1996 at a total cost of $4.5 million.

Establishing the need

80. The Board was concerned to note that in several cases test checked, consultants were engaged without establishing that adequate and appropriate expertise was not available within the Organization to carry out the tasks assigned to the consultants, and that the assignments extended beyond the day-to-day work of the Organization. For example, consultants were engaged on the grounds that "the section was understaffed" or due to shortage of resources. The Board did not find adequate evidence to show that the Division of Human Resources Management had, in all cases, examined the availability of internal expertise before engaging consultants, by closely interacting with the requisitioning departments.

81. The Board, therefore, recommends that the Division of Human Resources Management should more actively verify and establish the need for every consultancy contract and record the justification clearly.

82. The Administration stated that the Division of Human Resources Management is now screening all new consultancy requests or requests for extension to determine if a staff member, particularly one awaiting re-assignment, has the required expertise to undertake work for which consultancy support is requested.

Defining the requirement

83. The terms of reference should provide a detailed breakdown of the work the consultant will be required to undertake, the delivery time-table, the expertise and qualifications required for the assignment and other details to facilitate selection of the consultants and their performance evaluation. In 72 percent of the 55 samples examined, the terms of reference contained only a general description of the assignments without providing specific targets and delivery dates against which consultants' performance could be measured.

This undermined the Organisation's ability to control and monitor the contracts and to determine whether consultants had achieved their objectives in terms of quality and cost.

84. The Administration stated that it will take action for those consultancies where terms of reference stipulate a final product by a certain date. However, where consultants are appointed as a stop gap measure or as an emergency response or to fill a vacant post, terms of reference need to be flexible.

85. The Board recommends that the Administration should issue guidance to all field offices and requesting units at Headquarters on the need to prepare terms of reference in a more precise and output-related manner, and to include objectives, targets and delivery dates with deliverable/measurable outputs.

Identification of candidates

86. Field Offices and requesting units at Headquarters undertake the initial identification of candidates once they have identified the work requirements. Test examination of 55 consultants' files disclosed that in 89 per cent of the cases, only one candidate had been identified; but the Department of Human Resources Management approved these cases without enquiring whether the requesting units had fully considered alternative candidates. Selection of consultants was, thus, in most cases, on a single candidate basis.

87. The Board noted that consultants were identified either from personal contacts, spontaneous application, recommendations or from having previous contractual arrangements with the organisation. The Board feels that if a wider source for selection of consultants is not used, there is increased risk that other suitable qualified candidates may not be considered, and poor value for money will be obtained.

88. The Administration stated that there is a need to review its consultant contracting policy in order to ensure a wider source of consultants and a more competitive process. Accordingly suitable guidelines will be issued particularly with respect to more specific, measurable and achievable terms of reference, selection criteria and delivery dates.

Maintenance of rosters

89. The Programme and Technical Support Section is responsible for maintenance of a roster of consultants with a view to enabling a wider choice of selection. The Board found that the Programme and Technical Support Section roster contained some 659 candidates covering six different skills; but the roster was little used in 1996. During the period from 1 January to 31 December 1996, only 17 per cent of the consultants appointed were taken from the roster of consultants. The Board's review disclosed that the large number of consultants identified in the roster were not used. The Administration stated in its response that it is impractical for the Department of Human Resources Management to be the custodian of a comprehensive consultants' roster; the Department of Human Resources

Management does not have the technical expertise nor resources to evaluate the quality or performance of often highly specialized consultants nor the ability to track the availability of candidates which is currently done through an informal network, and UNHCR is considering decentralising the contracting process, including maintenance of the roster, to the line departments so that they are fully responsible and accountable for the identification, selection and evaluation of consultants.

90. The Board is concerned that UNHCR is unable to maintain an adequate roster of consultants and that the decentralization proposed will further weaken the maintenance of the roster. The Board recommends that within its decentralisation plans, UNHCR should ensure that a central roster is maintained with up-to-date information.

Lead time for selection of consultants

91. In 29 of the 105 consultancy contracts covering 55 individual consultants examined by the Board, the period between the request for consultants and the commencement date of the contracts was 18 days or less; this restricted the scope for identifying alternative candidates and/or examining the need for continuance of existing consultants. In some cases, requests were received in the Department of Human Resources Management after the commencement dates of contracts, which resulted in ex-post facto approval and retrospective appointment of consultants. Inadequate lead time in selection process led to signing of contracts substantially after the start date of the contracts in a large number of cases. The Administration stated that staffing of a UNHCR operation is a complex process and the request for consultants is very often urgent due to the unpredictable nature of refugee situation. UNHCR, however, recognises the need for improvement.

92. The Board recommends that Administration should regularly assess and estimate future personnel requirements so as to give adequate lead time for recruitment action.

Repeated engagement of consultants

93. In 44 per cent of cases examined, consultants were engaged repeatedly with intermittent breaks but mostly for the same job. In 14 cases, the same consultant was engaged for long periods and in one case the engagement of a consultant exceeded 14 years. The Administration stated that consultants working for successive periods or under recurrent contracts are not always for the same purpose; since UNHCR is launching a career management system in 1997, it would be possible to identify competencies required for specialised posts and arrange training accordingly. The Administration added that where outside expertise is necessary for want of in-house skills, suitable addition to training will be made.

94. The Board recommends that prolonged engagements of the same consultant should be avoided by improved personnel planning practices.

Extension of contracts

95. The Board noted several cases where the original contracts were extended frequently. Of the 226 consultants engaged during 1996, extensions were granted in 115 cases (51 per cent). In 7 out of 12 cases reviewed, the Board noted that definitive end-products such as reports, research papers or training modules could not be produced within the scheduled time; extensions of time ranging from 50 to 300 per cent were granted over the initial contract period to complete the tasks. The Administration stated that a Working Group will look into the measures required to ensure more realistic time frames and to ensure that the need to resort to extensions is diminished.

96. The Board recommends that concrete steps be taken to ensure that avoidable extensions are not resorted to.

Evaluation of the performance of consultants

97. In the cases examined, the Board noted that the evaluating officers failed to specify whether the consultants' work had conformed to the terms of reference. Where the Administration had assessed the consultant's performance as excellent, the assessment did not bring out the strengths and weaknesses of individual consultants to enable reconsideration for their specific future assignments. The Administration stated that there is a need to record consultants' performance in a more complete form and the Working Group will examine the process of evaluating consultants' performance.

98. The Board recommends that this may be done at the earliest.

Training

99. The Board noted that UNHCR's 1996 training plan is drawn up on the basis of training budgets submitted by field offices and Headquarters' units. The plan is based on information from the field which is limited to financial data and does not provide an analysis of the specific training activities proposed. The Board considers that a detailed training needs analysis would provide UNHCR with a more co-ordinated and effective program of training.

100. The Administration stated in response that it is reviewing its process of drawing up training plans with the aim of capturing more information on planned activities and trainees. Needs analyses will be based on competency of development plans introduced under UNHCR's new Career Management System.

101. The Board takes note of UNHCR's proposals in this area.

4. Asset Management

Implementation of the software system MINDER

102. MINDER is a fully decentralised software/hardware system incorporating the tracking and management of assets (Non-Expendable Property). Using this package, each field office should record electronically all its acquisitions, disposals and redeployment of property and report to Headquarters every three

months, where a consolidated inventory is maintained. The use of bar-codes replaces the old metal tag numbers and hand-held bar-code readers are being introduced to simplify the yearly stock-taking.

103. In its report for the year ended 31 December 1994, the Board of Auditors had recommended that efforts should be made to implement the new Asset Management system as early as possible; pending implementation, suitable arrangements should be made to track and record all acquisitions of property in the existing system. UNHCR should ensure that all field offices/implementing partners maintain adequate records of properties and carry out periodic physical verification.

104. In its Financial Statements for 1996 UNHCR stated that during 1995 the MINDER Asset Tracking System was introduced world-wide for recording of all administrative and project assets, whether used by implementing agencies or by UNHCR. Although implementation continued throughout 1996, not all field offices have been able to complete the recording of their assets. The Board verified implementation of the MINDER system and found that by the end of December 1996, 31,000 assets had been recorded in the system with an estimated acquisition value of $208 million. A total of 6,004 assets were recorded without indication of values. The Administration estimated that 44,000 assets were held by implementing partners in about 75 countries. However, the Board noted that only 4,232 assets with an individual value exceeding $1,500 were recorded for implementing partners. The Board also noted that out of 131 country data bases to be consolidated at Headquarters, only 75 data bases have been established and even these have not been updated regularly. The Administration is yet to make a beginning in establishing the databases of the remaining 52 countries.

105. The Board reiterates its previous recommendation that efforts be made to implement the new Asset Management System as early as possible.

Limitations of the system

106. Although MINDER is intended to be an advanced system of asset management, the Board noted that owing to the lack of compatibility between the procurement and the asset management systems, it was not possible for MINDER to capture automatically details of assets procured. As MINDER employs different classification codes from the ones used in the procurement system, the Board envisages problems of reconciliation of data.

107. The Board, therefore, recommends that the MINDER system should be upgraded to enable electronic transfer of data from the procurement system. The Administration stated that the issue is being considered within the development of the whole supply chain system and the introduction of electronic Supply Information Management System.

108. UNHCR's definition of 'assets' includes all items with a serviceable life of three years or more and UNHCR has given an option to field offices to enter assets below $500 into the system on bulk entry basis or individually. A multiplicity of small value items may not only limit the overall recording capability, but may also reduce the control on "high" value items. The Board, therefore, recommends that the limits established by UNHCR for

non-expendable items ($1,500) and other attractive items ($500) be used as the basis for inclusion in MINDER.

109. The MINDER system had 11,753 assets with zero value. The Board recommends that UNHCR reviews these zero values assets with a view to deleting from the system those that fall outside the established definition and to assign values to those within the definition.

Quality control on data

110. In branch offices in Monrovia, Khartoum and Conakry purchase order numbers, dates of purchase and original value of the non-expendable property items were not recorded in a number of cases.

111. The Board noted that in this transitional phase of implementation of the MINDER system, there were a number of omissions in data for several assets. The Board trusts that as the system becomes fully operational, UNHCR will ensure that full details of all assets are entered into the system.

Physical verification

112. Under the established procedure all assets with a unit value of more than $500 should be physically checked every year and those below $500 once in two years. However no physical verification of the assets in UNHCR headquarters was carried out up to December 1996. No reports on physical check of assets were received from the field offices. The Administration stated that it has not been possible to conduct a full physical inspection of the assets due to lack of human resources, logistics constraints and delay in despatching the bar code readers as a result of unforeseen technical problems.

113. The Board recommends that physical verification of all assets, including those not recorded into the system, should be completed expeditiously.

Transfer of assets

114. The Board noted that transfer of assets valued at $10.89 million to a host Government was approved by the Headquarters Asset Management Board (HAMB) on the grounds that UNHCR staff had no access to the assets and hence could not bar code them. The Board noted that while submitting the case to HAMB, the value of several items to be transferred was not included and therefore the declared value was understated.

115. The Board considers the transfer premature as the operations in the country were still in progress. The Board suggests that the field office should ascertain the total value of assets under transfer by verifying procurement details and enter into a transfer agreement with the host government for the entire value. The Board recommends that transfer of assets should only be effected after the completion of operations.

5. Travel

116. In its report for the year ended 1994, the Board had pointed out certain deficiencies in the management of travel claims and delays in settlement of claims. The Board carried out a survey to determine the status of travel claims. Although the Board noted some improvement there were still 450 travel claims outstanding for over a month. Of these, 144 (32 per cent) were outstanding for more than six months. Cases were also noted where claims were pending even after a lapse of 15 to 35 months. In addition, multiple claims were outstanding against the same staff member although there was a reasonable time-gap between the journeys. In a few cases, the travel claims were settled only after a lapse of 9 to 17 months. The Board gives importance to timely submission and settlement of travel claims as this provides not only a basis for prompt liquidation of travel advances but also serves as evidence that the missions did take place. The Administration stated that a majority of delinquent claims related to long-term missions to hardship areas. Travel procedures for staff members assigned to posts on Mission status were revised in January 1997 to allow field offices to administer these claims and the Administration considers that this anomaly will accordingly be eliminated. The Administration has further issued instructions to provide guidance on proper and timely submission of travel claims.

117. The Board recommends that the Administration should, in keeping with established procedure, deduct the advances from the salary in respect of outstanding travel claims.

6. Internal Audit

Staff strength and audit coverage

118. The Board had pointed out in its report on the accounts of the United Nations for the biennium ending December 1995 that the audit coverage of UNHCR was not adequate and that there was a need for strategic identification and selection taking into consideration available resources for better audit coverage. The present staff strength of the Office of Internal Oversight Service's UNHCR audit section is eight professional staff and three general service staff. One vacant professional post is under recruitment. Considering the range and widespread activities of UNHCR, Office of Internal Oversight Services (OIOS) and UNHCR had agreed that the staff levels need to be significantly increased in order to provide adequate audit coverage. In a Memorandum of Understanding which was signed by the two parties in April 1997, UNHCR and OIOS estimated that 12 professional level staff would be required to ensure adequate audit coverage. These, however, are subject to the availability of funds.

119. Office of Internal Oversight Service's UNHCR audit section draws up a yearly audit plan after taking into account various parameters of prioritisation including coverage of ongoing UNHCR country programmes once in three years on an average. However, due to staff constraints at the professional level, the cycle of coverage tends to be longer.

120. The Board trusts that on implementation of the Memorandum of Understanding between UNHCR and OIOS, sufficient staff resources will be

provided to the OIOS's UNHCR audit section to ensure that audit cycles are delivered as planned.

121. The Board in its report for the period ending December 1994 had stressed the need for quicker response to Internal Audit observations. The Administration had stated in response that their objective was to reply to Internal Audit observations within 3 months of the issue of the Report. The present review by the Board showed that despite improved procedures introduced by UNHCR in March 1995 for hastening the response to Internal Audit findings, out of 127 audit comments issued by the Internal Audit during October 1994 to December 1996, responses to 35 comments were delayed beyond 6 months or more and 78 audit comments were responded to after 3 months. As at 31 December 1996, 157 recommendations of the Internal Audit were not implemented. The Administration indicated that as at 31 December 1996, 14 audit comments had not been replied to.

122. The Board recommends that UNHCR ensure that Management provide timely response to internal audit findings.

7. Cases of fraud and presumptive fraud

123. As required under the United Nations Financial Regulations and Rules, the UNHCR Administration reported one case of fraud during the year. In the Sub-Office, Chimoyo, Mozambique a staff member had misappropriated $39,892 of which $16,579 have been recovered. The Administration is now taking steps to bring criminal proceedings against the employee who has since been dismissed from service.

8. Acknowledgement

124. The Board wishes to express its appreciation for the cooperation and assistance extended to the auditors by the High Commissioner and her officers and their staff.

John BOURN
Comptroller & Auditor General of the
United Kingdom of Great Britain
and Northern Ireland

Osei Tutu PREMPEH
Auditor-General of Ghana

Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

16 July 1997

ANNEX

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the period ended 31 December 1995

I. RECOMMENDATION 10 (a)

1. The accounts of the implementing partners relating to UNHCR funds should be regularly audited by independent audit authorities. Further, the Administration should obtain audit certificates submitted by the implementing partners to verify the correctness and propriety of the expenditures incurred by them.

Measures taken by the Administration

2. UNHCR has undertaken an exercise to determine the extent of audit of implementing partners by a comprehensive analysis of the existing certificates being obtained by them, the areas of wanting audit certificates - nature and problem thereof. By directly addressing the implementing partners both centrally and from field offices, UNHCR is trying to quantify the magnitude of the problem. The Administration proposes to submit to the Standing Committee in September 1997 an analysis of the audit certificates received. Simultaneously, the introduction of a system for partner selection/monitoring process is under consideration. The project will be funded by the Canadian management consultant trust fund for management systems and quality improvement projects. Through these efforts UNHCR proposes to firm up its policy of implementing partner selection and audit certification. The results will be presented to the Executive Committee at its forty-eighth session.

Comments of the Board

3. The Board appreciates the steps taken by UNHCR and suggests that UNHCR should ensure that these audit certificates are submitted by the implementing partners in sufficient time for the Administration to have the necessary assurance about the regularity, compliance and propriety of the expenditure incurred by the implementing partners and reflected in the financial statements.

II. RECOMMENDATION 10 (b)

4. The reasons for variations between the initial and revised budgets and the actual expenditures in respect of programme components should be analysed and the findings should be submitted to the Executive Committee every year.

Measures taken by the Administration

5. The Administration stated that UNHCR keeps the Executive Committee informed of variations between initial and revised budgets and subsequent expenditure rates. This information is presented to each annual session of the Executive Committee in the overview of UNHCR activities document and its addenda.

Comments of the Board

6. The Board notes the reply of the Administration.

III. RECOMMENDATION 10 (c)

7. Inputs for budget estimation should be worked out more reliably in concert with field offices. For this purpose, the database of caseloads (number of beneficiaries) and other required inputs should be updated periodically.

Measures taken by the Administration

8. The Administration stated that UNHCR is committed to improving its beneficiary registration procedures and systems. As previously noted, a number of recommendations concerning budgetary parameters, including the need to establish benchmark cost data, were made within the framework of project Delphi. The Operations Management System Project Team has stressed the need for integrated information technology systems which would allow the establishment of direct links between, inter alia, regularly updated planning information progress reports and beneficiary statistics.

Comments of the Board

9. The Board will monitor the progress of these efforts.

IV. RECOMMENDATION 10 (d)

10. A factor for inflation multipliers and exchange rate variations should be included in respect of field office budgets of major expenditure centres. The method of computing the vacancy factor also needs refinement.

Measures taken by the Administration

11. UNHCR maintains that the additional human and financial resources required to analyse and forecast inflation and exchange rate variations factors with any degree of reliability would provide very little added value to the Organization. UNHCR, however, agrees to refine the method of computation of vacancy rates.

Comments of the Board

12. The Board has no further comment.

V. RECOMMENDATION 10 (e)

13. The Financial Management Information System (FMIS) should be modified to provide common staff cost percentages separately for General Service and for Professional staff.

Measures taken by the Administration

14. The Administration stated the changes in the account code structure and the consequent modification of the FMIS system which would be required to implement the Board's recommendations will be taken into account in the development of new account code structures within the Project Delphi framework.

Comments of the Board

15. The Board has no further comment for the present.

VI. RECOMMENDATION 10 (f)

16. The impact of uneven availability of funds on project formulation and implementation should be reviewed. The inputs for programme planning should be assessed more reliably.

Measures taken by the Administration

17. UNHCR maintains that a prioritisation of activities within the project formulation process is the preferred method of dealing with funding shortfalls, particularly under certain Special Programmes which may not attract sufficient donor response.

Comments of the Board

18. The Board appreciates the point regarding prioritisation of activities within the project formulation process but suggests that the impact of uneven funds availability on project formulation and implementation may be studied.

VII. RECOMMENDATION 10 (g)

19. Appropriate criteria should be established for selection of beneficiaries for projects, after obtaining adequate data and information. The process of beneficiary selection should be documented to enable achievements to be evaluated subsequently.

Measures taken by the Administration

20. UNHCR agrees with the Board's recommendations and has continued its efforts to improve the related mechanisms and procedures.

Comments of the Board

21. The Board will monitor the progress of these efforts.

VIII. RECOMMENDATION 10 (h)

22. The instructions issued to the field offices regarding preparation of work plans on a selective basis should be reviewed. The Administration should also review the format of the work plan provided in the UNHCR Manual to make it more programme specific and an effective management tool.

Measures taken by the Administration

23. The Administration stated that inadequate compliance with this requirement led UNHCR to insist on the submission of work plans only for operations in which these plans would serve as a meaningful and effective management tool, leaving the judgement on the necessity of preparing such plans to the project managers concerned. With the introduction of the new Operations Management System, however, there will be an increased focus on operations plans within a framework of integrated objectives of the operations themselves.

Comments of the Board

24. Pending introduction of the new Operations Management System, the Board recommends that the requirement of work plan should be continued and the format should be more programme specific to be an effective management tool.

IX. RECOMMENDATION 10 (i)

25. Precise and well-defined performance indicators should be included in sub-project agreements.

Measures taken by the Administration

26. The Operations Management System Project Team has made a number of recommendations in the context of objective setting, needs assessment and design, which include the definition of global as well as specific indicators to, inter alia, assist in monitoring and self-evaluation.

Comments of the Board

27. The Board expects early implementation of these objectives.

X. RECOMMENDATION 10 (j)

28. Programme deliveries should be planned and provided in accordance with a predetermined time schedule to suit the needs of beneficiaries.

Measures taken by the Administration

29. The Administration stated that UNHCR has finalized the supply chain plan of action, and a budget of US$3,115,126 for the biennium 1997/1998 has been approved.

Comments of the Board

30. The Board will examine implementation of this plan of action in future.

XI. RECOMMENDATION 10 (k)

31. The capabilities of implementing partners to implement major projects should be assessed in more detail. The deficiencies noticed in the implementation of a project by an implementing partner in the United Republic of Tanzania should be investigated and appropriate remedial measures taken, including recovery of overpayments.

Measures taken by the Administration

32. This recommendation will be considered at the September 1997 meeting of the Standing Committee when the subject of audit observation on implementing partners is scheduled for discussion.

Comments of the Board

33. The Board expects that a current study for partner selection which has been taken up by UNHCR, when completed, will give necessary direction to UNHCR.

XII. RECOMMENDATION 10 (l)

34. UNHCR should ensure that project monitoring reports (PMRs) are received on time and used for project monitoring purposes by all programme managers. Implementing agencies should be advised to submit sub-project monitoring reports (SPMRs) regularly and with complete details.

Measures taken by the Administration

35. As with the previous recommendation, this recommendation will also be presented at the September 1997 meeting of the Standing Committee.

Comments of the Board

36. Pending consideration by the Standing Committee, the Board considers that the existing provisions for monitoring of projects/sub-projects should be enforced.

XIII. RECOMMENDATION 10 (m)

37. Appropriate procedures should be established by field offices to evaluate programme achievements and outputs. The findings of such evaluations should be utilized in programme planning and implementation.

Measures taken by the Administration

38. The Operations Management System Project Team has emphasized the importance of this process. Detailed procedures will be elaborated on further in the course of Project Delphi Implementation.

Comments of the Board

39. The Board notes the position.

XIV. RECOMMENDATION 10 (n)

40. Field offices should be required to send receiving reports, giving complete details, within a set period of time for goods ordered on their behalf by UNHCR headquarters. Prompt follow-up action should be taken in all cases to call for outstanding reports, analyse them on receipt and file insurance claims when goods have been short-delivered or delivered in damaged condition.

Measures taken by the Administration

41. Through more consistent follow-up, UNHCR's Supply and Transport Section (STS) has achieved a significant improvement in this area. UNHCR reiterated, however, its reservations that further substantial improvement is possible using traditional methods. Through a Global Freight Agreement UNHCR will assume the direct responsibility for organising international transport of the bulk of its purchases.

Comments of the Board

42. The Board will examine improvements in this regard through future audits.

XV. RECOMMENDATION 10 (o)

43. Annual procurement plans should be obtained from all field offices, and procurement planning should be strengthened further to ensure its economy and efficiency.

Measures taken by the Administration

44. The Administration stated that through extensive follow-up the position of receipt of annual purchasing plans have improved considerably. Discussions are ongoing with the Programme Coordination section to redesign the procurement planning documents to capture better the required information on procurement.

Comments of the Board

45. The Board notes the efforts being made for improvement.

XVI. RECOMMENDATION 10 (p)

46. UNHCR field offices should be instructed to review the procurement procedures adopted by implementing partners to ensure that they adhere to competitive bidding procedures.

Measures taken by the Administration

47. UNHCR has approved a budget for two procurement and logistics training workshops to be specifically targeted at NGO's. Planning for these activities is in process.

Comments of the Board

48. The Board considers that UNHCR should keep this issue under review.

XVII. RECOMMENDATION 10 (q)

49. The procedures for need assessment and requisitioning for bulk items should be reviewed in light of the unplanned procurement of Lysol for a field office which resulted in wasteful expenditure of $3.04 million.

Measures taken by the Administration

50. The Administration stated that as part of the procedures review undertaken, within the framework of the Supply Information Management System project (SIMS), UNHCR plans to enter into 10 frame Agreements for commonly purchased items in 1997. This will hopefully provide some safe guards against the recurrence of situations similar to the Lysol.

Comments of the Board

51. The Board notes the position.

XVIII. RECOMMENDATION 10 (r)

52. Additional training programmes should be conducted in subjects closely related to the operational requirements of UNHCR. Action should also be taken to obtain a commitment from the sponsoring agencies that the trained personnel would work for an appropriate period of time in the areas in which they were trained.

Measures taken by the Administration

53. Training is an ongoing activity and an integral part of the UNHCR efforts to improve and ensure constant and consistent implementing partner performance. Implementing partner staff are incorporated in the regular training courses conducted. Regular on-the-job training is also provided through the regular monitoring visits undertaken by our field staff to the offices of our implementing partners. Implementing partners' commitment to ensuring staff stability, however, will be difficult to obtain.

Comments of the Board

54. The Board will examine improvements in this regard through future audits.

XIX. RECOMMENDATION 10 (s)

55. UNHCR should establish a strategy for developing and updating its information system compatible with the organizations' corporate objectives. The strategy should include the steps required to customize IMIS to meet UNHCR's specific requirements and priorities for implementation.

Measures taken by the Administration

56. The Administration stated that the Information Systems Strategic Plan is currently being developed by the Information and Communications Systems Section and it will be completed prior to the Standing Committee meeting in September 1997. UNHCR has reviewed its plans in respect of implementation of IMIS. During the course of 1997/1998, UNHCR plans to progressively implement the IMIS Human Resource System modules. Considerable attention will be given to the integration of the IMIS account coding structure and IMIS technology with other major systems required by UNHCR. Familiarisation with the software will be done in 1997, followed by customization of the software in 1998 to meet UNHCR's specific requirements. Release 1 and Release 2 are proposed to be implemented by the beginning of 1999.

Comments of the Board

57. The Board notes the initiative.

XX. RECOMMENDATION 10 (t)

58. The accounting policies and notes to the accounts should be provided in the financial statements distinctly and clearly with cross-references to individual statements.

Measures taken by the Administration

59. The Administration stated that the Notes to the Accounts of the Voluntary Funds administered by the High Commissioner of Refugees for the period ending 31 December 1996 reflect the accounting policies separately in Note 1 and Note 2 of that document.

Comments of the Board

60. The Board notes that though changes have been brought about in the presentation, the accounting policies, in many cases, read more like explanatory notes to various items of accounts.

AUDIT OPINION

We have examined the following appended financial statements comprising Statements I to III, Schedules 1 to 10, Appendix I and Supporting Notes of the voluntary funds administered by the United Nations High Commissioner for Refugees for the financial period ended 31 December 1996, in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

As a result of our examination, we are of the opinion that the financial statements present fairly the financial position of the United Nations High Commissioner for Refugees as at 31 December 1996 and the results of its operations and cash flows for the financial period then ended; that they were prepared in accordance with the stated accounting policies, which were applied on a basis consistent with that of the preceding financial period; and that the transactions were in accordance with the Financial Regulations and Legislative Authority.

In accordance with our usual practice, we have issued a long form report on our audit of the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees as provided for in the Financial Regulations.

John BOURN
Comptroller and Auditor General of the
United Kingdom of Great Britain
and Northern Ireland

Osei Tutu PREMPEH
Auditor General of Ghana

Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

16 July 1997